

**Evaluation of the  
Concern-USAID Matching Grant Program**

**Commercialisation with Social Objectives**

**– a review of AMK: the Cambodian microfinance subsidiary of  
Concern Worldwide**



**Micro-Credit Ratings International Limited**

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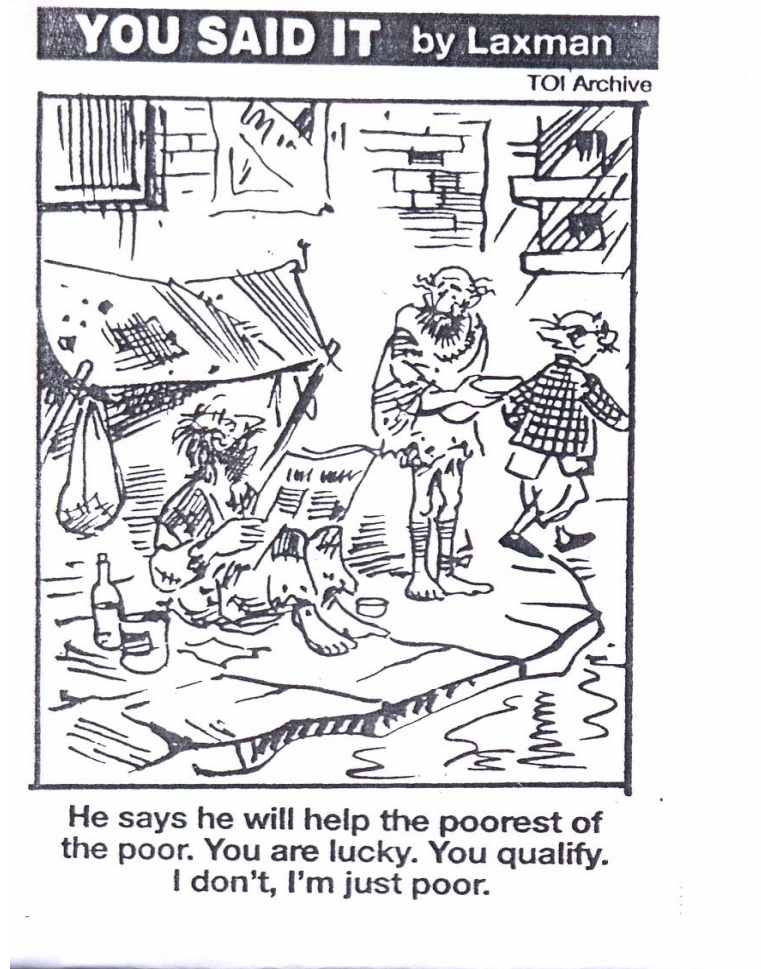
**August 2005**

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## Preface & Acknowledgements

The newspaper cartoon below (**Times of India**, 11 August 2005) sets the scene for one of the major debates in microfinance, yet the emerging evidence suggests that the debate itself is misplaced since there is no clear dichotomy between serving the poorest families and running sustainable microfinance. Angkor Mikroheranhvatho (Kampuchea) Co Ltd (AMK)'s efforts in this direction are laudable. Pleasant reading...



This evaluation was commissioned by Concern Worldwide based in Dublin, the Republic of Ireland. The author would like to thank Isabelle Kidney, Microfinance Advisor in the Policy Department of Concern Worldwide for commissioning the study and Tanmay Chetan, CEO of AMK and all his colleagues both at Head Office and at the branches of AMK for their support and patience in facilitating the study. Thank you to all concerned for waiting while my arteries were sorted out. The great time I had reviewing AMK operations had nothing at all to do with the problem.

**Sanjay Sinha**  
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## Section 1

### **Executive Summary**

#### **1.1 Key Data**

<b>Parameters/ratios</b>	<b>June or September 2003</b>	<b>June 2005</b>
Active clients/ borrowers	12,568	28,758
Portfolio size, US\$	668,000	1,998,000
Total staff	62	103
Credit Officers	21	52
Credit Officer caseload	765	553
Portfolio per Credit Officer, \$	31,800	38,425
Portfolio at Risk <sup>30 days</sup>	2.5%	0.3%
Operating Expense Ratio (OER)	38.3%	41.0%
Yield on Portfolio	34.2%	37.2%
Operating Self-Sufficiency (OSS)	81%*	93.2%*

\*Annualised

#### **1.2 Summary of Major Conclusions & Recommendations**

AMK was registered on 20 May 2003 by Concern Cambodia as a Limited Liability Company with the Ministry of Commerce of the Royal Government of Cambodia. It was granted an MFI licence by the National Bank of Cambodia in May 2004.

Over the past two years, AMK has established a very strong management team and put excellent governance arrangements in place. Operations have stabilised and grown substantially with around 150% growth in the number of clients and loan officers and 200% growth in portfolio size. In particular, the historical problem of portfolio quality has been controlled and brought down to a very low, manageable level.

In many areas, AMK has achieved “best practice” levels in Asian microfinance. Particularly notable are its arrangements for internal audit, client feedback (via the TRAM surveys), human resource management and staff incentive system, overall financial management and its systematic approach to assessing new markets for expansion. Areas in which AMK still needs additional improvement in order to bring it up to best practice standards are MIS, branch operations (particularly in the important Banteay Meanchey branch) and product design. Operating efficiency also needs to be improved but this is expected to happen by the end of this year anyway when the impact of seasonal gains in the latter half of the year are recorded.

Specific recommendations emerging from this evaluation are

- 1 There is a need for a renewed focus on branch operations – particularly in an important branch like Banteay Meanchey – to strengthen the capacities of the branch management. There is a case here for the CEO himself along with the Operations Manager to take a personal interest in ensuring that branch operations are run efficiently and smoothly. Specific activities that need attention are
  - Timely completion of daily posting of transactions. Posting taking place the following day is just tolerable but some posting is taking place several days later which represents a possible nightmare for the organisation not just in terms of potential fraud but also due to the risk of posting and accounting errors that, with time, become increasingly difficult to trace. Data security and the branch level back-up system need additional focus.
  - Ensuring that branch managers understand fully the economic characteristics of their operational areas so that appropriate decisions are not only taken on a day-to-day basis in terms of appropriate disbursements and follow up of overdues but that thoughtful feedback on the performance of particular products and specific operational areas reaches the senior management at Head Office. Partly to facilitate this, the management should ensure that loan use categories are appropriately set up in the MIS and then accurately posted as well as analysed.
  - It is important for branch-level financial statements to be prepared at the branches rather than the Head Office (perhaps initially at least with the direct involvement of the Branch Manager). Otherwise, branch level analysis does not take place in any way that makes a meaningful contribution to the understanding of the branch management.
  - All branches should be encouraged to undertake trend analysis of their branches both in terms of portfolio growth and quality and also in terms of branch viability. This will help to renew the focus on sustainability.
- 2 The management has made substantial efforts with issues arising in MicroBanker discussed in the body of this report. These need to be resolved urgently as they are an irritant in the short term and could become an impediment to expansion in the long term.
- 3 In the short term, problems arising in the loan portfolio reports generated by MicroBanker should be manually corrected at the branch level before being sent to Head Office. The argument that there is a clear understanding between the Operations Manager and branches about the difference between real delinquency and that caused by MIS deficiencies is not very satisfactory in the context of an efficient and effective microfinance operation.
- 4 Given the flexibility of the main EoT-VB product in terms of allowing pre-payments, the utility of the Instalment-VB as a product is questionable. It is, therefore, not surprising that the latter portfolio remains very small. It would be useful for the management to analyse the extent to which the pre-payment feature of its main product is known to and used by clients. Strengthening the flexible features of this product – as now proposed by the management – through a line of credit product is an excellent idea given the growing research evidence on the need of poor families for flexible financial services. On the other hand, the costs and utility of the recently introduced Emergency Loan should be carefully monitored to ensure it does not have a detrimental impact on AMK’s operations.

### 1.3 Lessons Learned

It is apparent from the discussion in the report that the Matching Grant was instrumental in enabling Concern Worldwide to access the personnel, financial and managerial/technical resources necessary to restructure the microfinance programme in Cambodia and move it towards a commercially-oriented yet socially relevant activity serving the needs of poor families in the country. Specifically, the Matching Grant has enabled Concern Worldwide to demonstrate that

- Financial services can only be delivered effectively and efficiently by a dedicated team that specialises in financial service delivery undiluted by efforts to deliver other development services. This is a very important lesson – now well established in microfinance all over the developing world. Mixing financial services with non-financial development activities results in a “soft” image amongst clients, on the one hand, and confusing and often contradictory roles of staff, on the other. The staff, in particular, find it difficult to combine the role of debt collectors in one *avatar* while they dole out well meaning subsidies in another.
- It is possible to deliver financial services to significant numbers of poor families relatively efficiently and sustainably without necessarily suffering from the “mission drift” that has become an important subject of debate in international microfinance and, indeed, is a live issue in Cambodian microfinance. Indications from AMK’s operations are that it is serving significant and growing numbers of clients from amongst the lowest income segments of the population of Cambodia, on the one hand, and that it is likely to become operationally sustainable in the near future as well as financially sustainable in the next 2-3 years.
- The establishment of a research and marketing department has been significant and helpful in the process of understanding the needs of clients and ensuring that the right segments of the population are being covered with appropriate financial services.
- Committed and focussed professional leadership – through a good Board of Directors and CEO – can be instrumental in ensuring the establishment of a strong, local management team. Good professionals look for opportunities for learning, professional growth and a conducive environment. They gravitate towards those they can learn from. AMK’s success in building a strong, youthful management team can be attributed to this factor.
- An open learning professional environment enables an organisation to adopt better and better practices in all aspects of its operations. A conscious commitment to “best practices” – in addition to sustainability – will enable AMK’s management to focus its efforts better on specific aspects of operations – particularly branch management – that still need improvement.
- The success of deposit services in a historically unstable economic environment is dependent on a substantial (and costly) effort from the MFI. AMK introduced a voluntary deposit product around September 2004 but has not yet been in a position to make an effort on the scale required to make an impact on the fiduciary environment in rural Cambodia. This environment has been badly affected by decades of political instability followed by the advent of “fly by night” finance companies in the 1990s.

## Section 2

# **Institutional Factors**

## **2.1 Legal Structure & History**

AMK was registered on 20 May 2003 by Concern Cambodia as a Limited Liability Company with the Ministry of Commerce of the Royal Government of Cambodia. It was granted an MFI licence by the National Bank of Cambodia in May 2004.

Concern Cambodia's engagement with microfinance started as a piloting of models of savings and credit activities that are separate from community development work. This piloting began after the withdrawal of the Vietnamese army in 1993 and continued until 1998. Emerging from the pilot activities, a decision was taken in 1999 to start a "National Savings & Credit Programme" in order to develop the programme into an independent Cambodian MFI. In 2001, the programme was re-named Thanakea Ponleu Thmey (TPT – The Bank of the New Shining Light). The following year TPT was recognised as a "Rural Credit Operator" by the National Bank of Cambodia.

The transformation of TPT into an MFI took place mainly during the second half of 2002 and most of 2003. The target group of the programme evolved from a focus on the poorest sections of the Cambodian population and, in October 2002, was re-defined as the Economically Active Poor (EAP). During this period, AMK was constituted with a strengthened Board of Directors, new staff recruitments, upgrading of systems and new policies to meet the needs of a financial institution.

AMK's launch as an MFI occurred effectively from 1 July 2003 with the completion of the physical separation of assets and liabilities. With the induction of a new CEO at this time, the process of institutionalisation gathered momentum. In November 2003, AMK's Board of Directors ratified its new guiding principles and, by January 2004, the MFI started to introduce new products. Inspections by the National Bank of Cambodia's MFI Inspection Team took place in September 2003, culminating in the granting of the MFI licence in May 2004. The annual repeat inspection was carried out by the central bank in February 2005 and reaffirmed the granting of the license.

## **2.2 Ownership & Board of Directors**

AMK is presently owned essentially by Concern Worldwide (Dublin) which has provided 99.9% of the total share capital of US\$2.5 million – consisting of 405,588 shares. The remaining 0.1% (100 shares) is owned by Concern Worldwide (UK).

The Board of Directors is appointed by the owners of the MFI and consists of 8 persons – five are presently employees of Concern Worldwide, one is a former employee and two are eminent persons in the field of finance and corporate governance. Information about the members of the Board of Directors is provided in **Table 2.1** (below).

**Table 2.1****AMK's Board of Directors**

<b>Name</b>	<b>Position on AMK's Board</b>	<b>Institutional affiliation</b>
Tom O'Higgins	Chairperson, Board Chairperson, Audit Committee	Management Consultant. Former partner, Price Waterhouse Coopers
Gerhard Bruckermann	Board member	Chairman & CEO, DEPFA Bank plc
Isabelle Kidney	Second Secretary, Board Member, Audit Committee	Microfinance Advisor, Policy Department of Concern Worldwide
Jim Hynes	Board member + Audit Committee member	Finance Director, Concern Worldwide
Louise Supple	Vice Chairperson, Board	Regional Director for Central Africa, Concern Worldwide
Pel Piseth	Secretary, Board	Manager, Community Forestry, Concern Cambodia
Tanmay Chetan	Board member	Chief Executive Officer, AMK
Theresa McDonnell Friström	Board member	Former Country Director, Concern Cambodia

**2.3 Alliances**

Concern Worldwide has one key alliance that facilitates the operations of AMK while the latter has another that helps to integrate it with the microfinance community in Cambodia. The first is an alliance with DEPFA Bank plc to provide regular funding to the MFI. As an indication of DEPFA's strong commitment to AMK, in December 2003, the bank's Chairman and CEO, Gerhard Bruckerman, even joined the Board of the MFI. DEPFA is a Dublin-based provider of financial services to public sector utilities and infrastructure projects. It has a network of subsidiaries and branch offices across the US, Japan and Hong Kong. It has a strong presence in the financial sector in Europe. Its support to AMK represents a vote of confidence from a significant financial institution on the international stage.

AMK is also an active member of the Cambodia Microfinance Association (CMA). The Association presently represents mainly the 9 licensed MFIs in Cambodia but also counts a couple of registered microfinance operators amongst its members. The MFA is presently a fledgling association with very limited resources and only informal recognition of the National Bank of Cambodia (the central bank). However, its creation in 2003 represents a first step in towards the establishment of an advocacy group for the microfinance sector in Cambodia. Since the CMA brings together all the leading microfinance practitioner organisations in the country, AMK's active participation in the organisation is an important step in ensuring the future mainstreaming of the organisation as part of the Cambodian financial landscape.

In addition to these specific alliances, Concern Worldwide is also an active member of Alliance 2015, a group of 9 NGOs that work together in their efforts in meeting the Millennium Development Goals. While this alliance has not had any direct impact on AMK

operations so far, some discussions have been initiated with Hivos – which is also part of Alliance 2015 – for collaboration in microfinance in the future.

## 2.4 Leadership

AMK's leadership operates at two levels: First the guiding principles of the organisation that are established by the Board of Directors and, second, the operational management that is led by the Chief Executive Officer (CEO).

Having had some disappointing experiences with its microfinance programme in Cambodia prior to the formation of AMK, Concern Worldwide has attempted to ensure that the MFI's guiding principles and governance follow international best practice. Thus, while the initial Board of Directors had only Concern staff, the organisation has constantly been on the look out for appropriate non-Concern persons to add to the expertise of the Board. Hence, the induction of Tom O'Higgins as Chairman of the Board in December 2004 and of Gerhard Bruckerman as a representative of DEPPFA, AMK's other major financial supporter at present. As indicated above, both are eminent persons in the field of finance and corporate governance and their inclusion has added considerable strength to the Board's ability to provide guidance on best practices in the financial sector worldwide. In addition, Concern is keen to ensure meaningful local Cambodian representation on the Board. Given, the paucity of qualified and skilled Cambodians within the country, however, this has been difficult to achieve. For the present, Pel Piseth, Manager of Concern Cambodia's community forestry programme provides some local inputs to the Board. However, the aim is to bring on board a Director with experience and technical knowledge of finance as well as of the financial sector in the country.

Since the official launch of AMK in July 2003, its operational leadership has been provided by Tanmay Chetan who was recruited at that time. Tanmay came to AMK with significant prior knowledge of MFI operations – through the rating and performance analysis of MFIs in India and a number of other Asian countries including Cambodia. Tanmay's experience in India with a professional organisation – Micro-Credit Ratings International Limited (M-CRIL) – has enabled him to instil a good work culture into AMK and to help develop the kind of professional systems necessary for its establishment as a “best practice” MFI.

## 2.5 Organisational Structure & Human Resource Management

As the organogram in **Figure 2.1** (following page) shows, the CEO is supported by a set of 6 departmental managers, branch managers and other staff. AMK's designated departments – Finance, Inspections (or internal audit), IT/MIS, Operations, Human Resources and Training, Research & Marketing (TRAM) represent the key functional areas of any good MFI. In AMK's case, however, TRAM is more specifically focussed on social research and “transformation effects” of its operations on clients as one of its major responsibilities while most MFIs are content merely with market research/client feedback along with some limited social analysis.

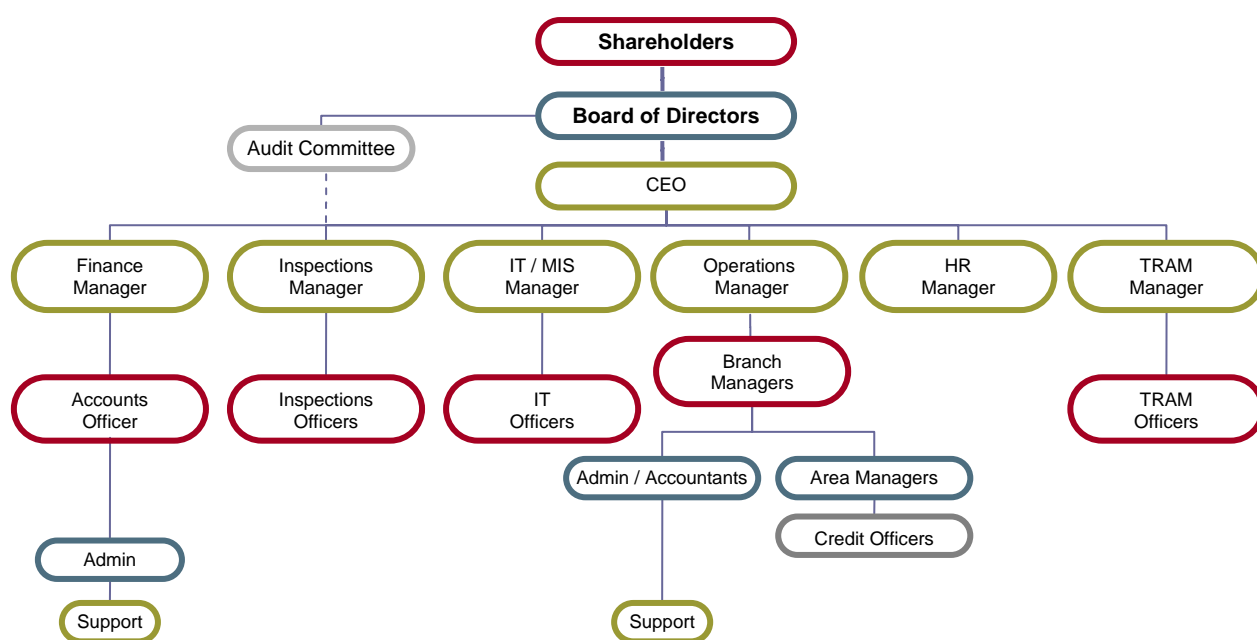
The departmental managers, recruited mainly after the launch of AMK, are all amongst the most competent Cambodians available to the microfinance sector. As **Table 2.2** shows, they all have more than five years of relevant experience in microfinance in Cambodia while the TRAM manager is an expatriate with substantial experience in Central America, Africa and

Asia. Replacing her (as indeed the CEO) in due course could be the next major challenge to be addressed by AMK.

AMK’s three branches – at Banteay Meanchey, Kampong Speu and Pursat – work under the operational direction of Branch Managers who report to the Operations Manager at the Head Office. Microfinance service delivery occurs in the field through a set of Credit Officers guided and supported by Area Managers who report to the Branch Manager while there is an Administrative Assistant-cum-Accountant at each branch to maintain the MIS and accounts. Banteay Meanchey and Pursat branches, responsible for the relatively new sub-offices at Battambang and Siem Reap province have additional administrative assistants to handle the extra work load.

**Figure 2.1**

**Management Structure of AMK**



Source: AMK Institutional Overview, 2005

**Table 2.2**

**Qualifications and experience of AMK’s senior management**

Department	Name	Qualifications	Experience
Chief Executive	Tanmay Chetan	MBA, Forest/ Rural Management	6 years, M-CRIL, MFI performance assessment, 2 years, AMK
Finance	Kea Borann	BBA, in Accounting and Finance	5 years with CREDIT MFI, 1.5 years with AMK
Inspections	Chum Paulette	BBA, in Accounting and Finance	4 years Price Waterhouse Coopers, 1 year AMK
IT/MIS	Dominique Milan	Bachelors of Science in Computer Engineering	3 years TPC, 1.5 years AMK

Operations	Mam Choeurn	BBA in Finance and Bank	7 years at AMRET, 1.5 years with AMK
Human Resources	Ly Theeda, Ms	Three-year course in Psychology and Pedagogy	~20 years: 4 years Concern & AMK, consultant with disability organisations, ACLEDA
Training, Research & Marketing	Olga Torres, Ms	Masters from Columbia University (SIPA), USA	7 years as a consultant and researcher for MFIs or programs, multilaterals agencies, think tanks, SACCOs and the private sector

As is apparent from the above table, for Human Resource Management AMK has a fully qualified manager with significant experience of training as well as managing staff in development organisations. She has spent some 15 years previously working with organisations such as Concern, various disability NGOs and ACLEDA. The organisation developed its first Human Resource Policies in 2003 and carries out annual revisions to it. The revised policy document effective from April 2005 is quite comprehensive covering all areas including

- Mission statement and guiding principles
- Underlying institutional policies related to conduct and gender, intoxication, conflicts of interest, gratuities and equal opportunities
- Human resource planning, training and development
- Recruitment, selection and process of new appointments
- Conditions of employment, hours of work, leave entitlements
- Performance incentives
- Health policies
- Grievance and disciplinary policies, and
- Termination of employment through resignation, redundancy, dismissal or death.

The document sets out all details and proformas for various forms of letters, applications, job descriptions, references and certificates. Most importantly, it sets out the criteria and method of calculation of performance incentives.

The incentive plan is an important part of AMK's operational strategy as it enables staff to earn as much as 30% of their total remuneration through incentives. Essentially, the incentive system shares up to 3% of the interest collected with staff depending on the current repayment rate recorded for the Credit Officer, area or branch. Adjustments are made for local operational difficulties through an adjustment factor determined by an "area potential index" that takes into account the local economy, infrastructure and terrain. Though there is some debate amongst staff about the judgement that goes into the determination of the area index, this is broadly a fair system.

## **2.6 Management Information System**

AMK has fully computerised management information systems with both laptop and desktop computers in use at the head office and computers at every branch both for branch level data entry and for data verification by the branch managers. This is supplemented by telephone

and satellite links with the head office to enable regular, if not instantaneous, data transfer. The system is controlled and operated by an MIS manager supported by two IT Officers.

Over the past 12 months, AMK has been in the process of switching from an MSExcel spreadsheet-based information system to the use of the MicroBanker software specifically created for microfinance institutions by the Food and Agriculture Organisation (FAO) of the United Nations. MicroBanker services and support to AMK are provided by the Regional Office of the FAO in Bangkok.

While the use of an internationally well known microfinance software has served AMK well in enabling it to establish an on-line MIS there have been a number of difficulties in support and customisation that are a source of disappointment. Specific problems faced by AMK that remain unresolved relate to

- 1 The impact of changes in collection dates on account of holidays (such as even Sunday) that result in a payment showing as late in the system and the loan appearing in the system as delinquent.
- 2 Similarly, collections rounded down by very small amounts (KhR30 for instance) to simplify the transaction (since there are no currency notes smaller than KhR50) appear in the system as delinquent loans with no provision for correction.

Both these problems result in misleading portfolio reports emerging from the system showing firstly, large numbers of accounts overdue by a few days (“standard”) and smaller, but still inaccurate, numbers of sub-standard and doubtful accounts. This results in unfortunate situations, shown in **Table 2.3**, like a cumulative overdue balance of just 34 baht in as many as 25 accounts leading to a provision of 304 baht (9 times as much as the overdue but in any case a very small amount). In theory, this should be manually corrected before reporting to the head office but the pressure of work at the branch level results in this not being done. The system works presently because there is an overall understanding of orders of magnitude in portfolio performance between the Operations Manager and the Branch Managers but it certainly could not cope with any sudden outbreak of delinquencies – resulting perhaps from a natural calamity – that could occur in future.

- 3 Multi-currency operations necessitated by firstly, the common practice in the economically important border province of Banteay Meanchey of using the Thai Baht as the main means of exchange and, secondly, the common use of the US dollar in Phnom Penh.

**Table 2.3**

**Loan Provision Report for Banteay Meanchey branch, 31 March 2005**

*Amounts in Thai baht*

Classification	No. of accounts	Loan balance	Overdue balance	Provisions	
				Rate	Amount
Not yet due	4,669	15,970,077	0	2.5%	399,252
Standard	1,018	2,311,015	29,965	2.5%	57,775
Sub-standard (o’ due 30-60 days)	25	3,035	34	10%	304
Doubtful (overdue 60-90 days)	14	11,819	11,819	30%	3,546
Loss (overdue >90 days)	133	251,331	245,331	100%	251,331
<b>Total</b>	<b>5,859</b>	<b>18,547,277</b>	<b>287,149</b>		<b>712,208</b>

Though from a technical perspective these problems appear relatively simple in concept, adequate service from the support team at the Bangkok Regional Office of FAO has not been available to AMK. Experience so far indicates that the response time is high and suggests a degree of indifference on the part of the support team to the needs of what is seen, perhaps, as a relatively small client.

These problems are presently also compounded by the erratic functioning of the recently installed satellite link between Kampong Speu and the Head Office in Phnom Penh. This has complicated and delayed data transfer which alternatively takes place via CDs physically transported from the branch to Head Office. Where data transfer by modem is possible – as from the Pursat branch – the system functions smoothly. Since the evaluation field visit, the satellite system has been replaced by a wi-fi broadband system which is now operational. It is fast, secure and cheaper than the satellite system and seems to have resolved the data transfer issue.

## **2.7 Internal Control System, Audits and Supervision**

AMK has a developing internal control system now approaching a very high standard of excellence in Cambodian microfinance. There are substantive control mechanisms at every level of the organisation with each senior level responsible for ensuring the next level's compliance with official policy. A check on compliance is exercised by the Inspection Team led by the Inspection Manager, Chum Paulette. The latter is a trained auditor with over 5 years' experience with a leading audit firm in Cambodia – the local branch of Price Waterhouse Coopers. He is supported by two Inspection Officers each of whom have previously worked with MFIs in Cambodia – one as a Branch Manager at TPC and the other as Audit Team Leader at CREDIT.

Internal audits/inspections are now being conducted three times a year at each branch and twice a year at the head office and take some 10-12 days for the team of three auditors to complete. Some 10% of vouchers and loan records are covered. Inspection reports are now produced in a format that classifies functions and problems arising by level of risk so that managers can be immediately alerted to the more serious problems. Thus, serious concerns like the disbursement of two loans to the same client from two different MFIs are recorded with a red background whereas lower levels of risk have yellow and green backgrounds. The concerned Branch Manager is required to provide a compliance report within 14 days of receiving the Inspection Report. Head Office inspections are undertaken every 6 months

External audits of AMK accounts are conducted by Price Waterhouse Coopers (Cambodia) Limited (PwC), the local branch of the well known international firm. PwC have come to be established in Cambodia as the auditors to the microfinance sector and are, thus, well experienced in the audit of MFI accounts. Audits appear to be completed in a reasonable (though not an express) time frame with the audit for calendar year 2004 having been completed and signed off by the auditors by the third week of March. As AMK's 2004 Annual Report shows, the audit report contains a good level of detail including clear statements of aspects like Technical Support Costs, Lease Commitments and Maturity Profile of assets not often found in MFI accounts. The external audit of AMK accounts, thus, reflects a very high degree of transparency.

## **2.8 Financial Management**

The AMK Finance Manager, Kea Borann, has significant experience of finance management having been Finance Director at the MFI CREDIT previously. Since the appointment of the Finance Manager in February 2004, considerable effort has been put into the establishment of policies and MIS including the change over to Microbanker which is ongoing. The major activity at present is fulfilling the reporting requirements of the National Bank of Cambodia and along with other departments correcting for some of the glitches in Microbanker (referred to above). The major challenge for the Finance Department is the training of branch staff (particularly the Branch Accounts Assistants) in adherence to financial and accounting policies especially in relation to the needs of Microbanker. One concern that needs to be addressed, however, is that while branch-level financial performance is being monitored by the senior management, financial statements are prepared only at the Head Office and not by the Branch Managers. The latter, therefore, obtain only a distant perspective on the performance of their branches. The management apparently intends to ensure, over the next few months, that financial statements are prepared at the branch level.

## Section 3

### Services, Clientele and Market

#### 3.1 Services

An excellent summary of the services offered by AMK is provided in the organisation's information document **AMK Institutional Overview**. A summary of the **loan products** is provided in **Annex 3.1**. AMK's main product – referred to in the Institutional Overview as the “flagship product” – is the **End of Term – VB** (or village bank) loan. Essentially, this implies that the organisation provides a loan of \$50-\$125 through village groups (known as village banks) with a bullet repayment obligation at the end of the loan term of 12 months. The loan is made on the basis of the group's social collateral at an interest rate of 3% per month. In addition, a loan processing fee of 0.5% is charged at disbursement. There is no pre-payment penalty and a few clients do make partial pre-payments.

The other main product is the **Individual Instalment** loan which is a much larger product of \$250-\$500 meant for microenterprise activities. This requires physical collateral as well as two personal guarantors, interest at 3% per month (until the fourth cycle when it reduces to 2.5%) and a fixed instalment of principal in addition to a 0.5% loan processing fee.

In early 2004, AMK also introduced an **Instalment Village Bank** loan which requires borrowers to repay in fixed instalments with interest charged at 2.8% per month on the declining principal. Again pre-payments are permitted and interest charged only on the outstanding balance.

The distribution of AMK's loan products is provided in **Table 3.1**. The importance of the EoT-VB is apparent from the table while the individual instalment loan is clearly also in some demand. The VB instalment loan (which accounts for just 0.3% of the entire portfolio), on the other hand, is clearly not in demand despite the lower interest charged. It is apparent from discussion and random feedback from a few clients that, given the lack of pre-payment penalties on the main product, the Instalment-VB loan offers no clear advantage to clients. In the opinion of the reviewer, the lower interest at 2.8% also offers relatively little incentive particularly since a decimalised difference of this order would be difficult for (near-) illiterate clients to relate to. For the interest rate difference to register as significant, it would need to be at least of the order of 0.5%.

**Table 3.1**

#### Distribution of AMK's loan products

US\$, end-June 2005

<b>Loan Product</b>	<b>Head office</b>	<b>Kampong Speu</b>	<b>Pursat</b>	<b>Battambang</b>	<b>Banteay Meanchey</b>	<b>Siem Reap</b>	<b>Total</b>	<b>%</b>
End of term – VB	0	480,290	428,914	63,974	780,707	89,506	1,843,391	92.3
Instalment – VB	0	3,901	0	109	4,893	0	8,903	0.4
Instalment – indvdl	0	51,622	27,776	4,078	31,505	8,274	123,254	6.2
Staff loan	22,547	0	0	0	0	0	22,547	1.1
<b>Gross outstanding</b>	<b>22,547</b>	<b>535,812</b>	<b>456,690</b>	<b>68,161</b>	<b>817,105</b>	<b>97,779</b>	<b>1,998,095</b>	<b>100</b>

In addition, as reported by the AMK Management Report for June 2005, “the flagship End-of-term loan product will evolve further with a transition into a credit line mechanism. This new product is aimed at clients who have demonstrated good credit discipline (who have successfully completed two loan cycles). The loan amount and interest rate remain the same as EoT-VB loan, but this product offers greater flexibility. Credit line clients can now borrow and repay multiple times during a loan cycle, with a credit limit equal to the EoT-VB loan (R500,000; US\$125). The loan term will be longer and can extend upto 24 months, the loan fee is lower since it is charged only once in 24 months, and clients can maintain any loan balance that they wish. They will be able to borrow in parts and repay as they wish as long as they clear the loan before the end date. This is a new product in Cambodia and will improve efficiency of operations too, and guard clients against floods, droughts etc by providing them a longer timeframe for repayment.” Since microfinance research in Cambodia, India<sup>1</sup> and elsewhere, shows that the real need of poor clients is precisely for this kind of flexibility, this innovation could result in significant strengthening of AMK’s competitive position.

Further, AMK plans to offer a new loan product which is described by the management report as having a “focus on timely delivery of money in the case of emergency in the client’s family. Existing clients who have completed one loan cycle will be able to borrow upto \$100 without a detailed loan appraisal. The main features of this product will be fast delivery (within 3-4 hours of receiving information), no appraisal (the CO will confirm the emergency when s/he visits the client with the money), lower interest rate than other products (currently 2.5% per month) and flexible repayments within a 10 month maximum loan duration. This loan will cover accidents, serious illness and deaths in the family of the clients.” While this is another product likely to be popular with AMK’s clients the management will need to monitor the costs of administering it carefully since the 3-4 hour delivery commitment could become costly if there is a large demand.

AMK also offers **deposit products** as indicated in **Table 3.2**. These consist of the loan-linked savings required from the individual instalment borrowers and the general voluntary savings deposit. As described by the Institutional Overview,

“Up to May 2003, TPT/Concern encouraged members to save small amounts at the village level. These savings were a compulsory precondition for providing loans but were not handled directly by Concern-TPT programme. The VBs themselves were responsible for its performance and maintenance.<sup>2</sup> The compulsory savings at the VB level were suspended in May 2003 and stopped completely from August 2003.<sup>3</sup>

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<sup>1</sup> See Sinha, S. & M Patole, “Of Microfinance and the Poverty of Financial Services: How the poor in India could be better served” **IDPM Working Paper**, Institute for Development Policy and Management, University of Manchester, UK, 2002.

<sup>2</sup> AMK required regular saving before providing a loan in order to screen out those members that were not diligent in their regular savings payment (i.e. savings was a test of their commitment and diligence). These savings were circulated as internal loans among the group members. AMK’s role was restricted to supervising the record management; providing each VB with a cash safe and stationary to record savings collections and onlending; and paying the incentives of the VB Savings Secretary (who was appointed specifically for savings management).

<sup>3</sup> This decision was due to the limitations of compulsory savings. On the one hand, the internal fund administered by the VBs was prone to nepotism if the patron-client relations prevalent in rural Cambodia were replicated in the figure of the VB President / Savings Secretary and the COs lacked verifiable information about the real performance of the savings fund because COs did not control its management. On the other hand, it was very costly for AMK to facilitate savings (providing a safe, stationary, incentives to the VB Savings Secretary, and significant CO time for recording functions). Compulsory savings were refunded to the members once they completed their full loan cycles.

“Currently, AMK offers two types of savings products: a loan-linked savings product for Installment-I loans and a general voluntary savings product.

### **Loan linked savings product**

“The loan-linked savings [2% of the loan amount] are compulsory for Individual-Installment loan clients and thus withdrawals are not permitted until the loan and interest is fully paid. However, on complete payment of outstanding loan and interest balances, the client has the option of withdrawing the savings with interest accrued (currently set at 12% per annum and to be recorded on a quarterly basis) or to shift the balance to higher interest earning voluntary savings.

### **General voluntary savings product**

“The new savings product allows complete freedom for deposit and withdrawal amounts and earns 1.5% interest per month (18% per annum) on minimum monthly balances. Accounts can be opened with a deposit of R500 (US\$0.125, which is also minimum savings balance to be maintained in the account), and the minimum denomination for transactions would be R100 or multiples of R100. At the time of enrolment, each individual (is) provided with a savings passbook free of cost where all transactions must be recorded by the CO/Teller. Transactions for deposits and withdrawals will take place at the village (on the day of the monthly VB meeting or individual meeting/visit) or at the branch office on all working days from 8am to 12pm.”

As **Table 3.2** shows, the general savings product introduced in the latter half of 2004 is not particularly popular yet (equivalent to just 0.1% of the outstanding loan portfolio in March 2005). Discussion with both management and clients indicate that the unpopularity of cash deposits is a historical problem in rural Cambodia, resulting from the problems caused by both hyper-inflation and the fiduciary irresponsibility of those offering financial services during the politically unstable decades that preceded the current one. Not surprisingly, very few of the MFIs in Cambodia offer voluntary savings products and those that do have not been able generate much by way of deposits.

**Table 3.2**

### **Distribution of AMK’s deposit products**

Deposit Product	Head office	Kampong Speu	Pursat	Battambang	Banteay Meanchey	Siem Reap	US\$	
							Total	% loan
Loan-linked saving		1,681	823	60	807	150	3,520	0.3
General saving		171	121	2	1,441	38	1,772	0.1
		<b>1,852</b>	<b>944</b>	<b>62</b>	<b>2,248</b>	<b>188</b>	<b>5,292</b>	<b>0.4</b>

### **Client insurance**

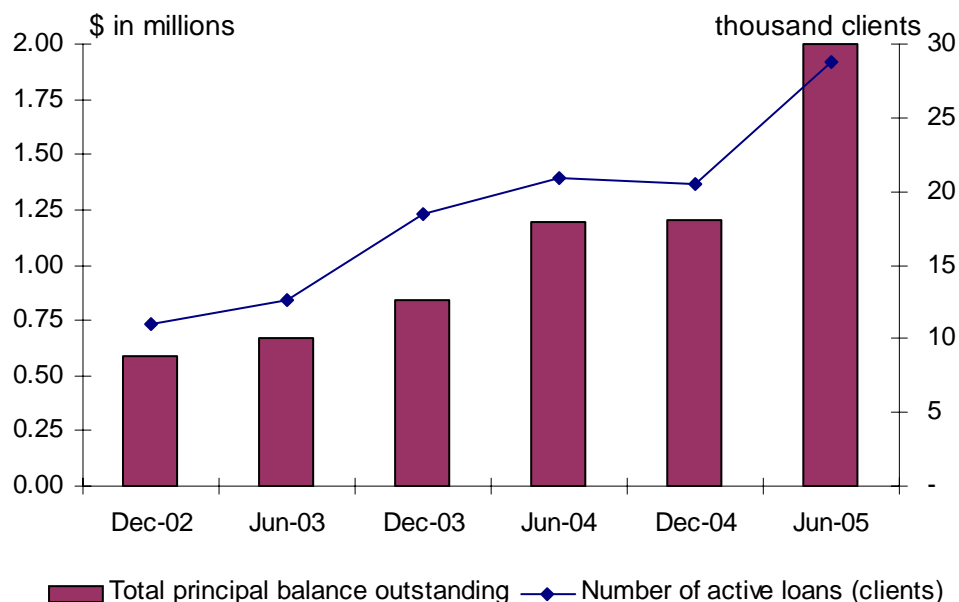
A new insurance product, based on surveys conducted by TRAM as well as by branch staff, is proposed to cover the life of clients. A separate fund is proposed for this purpose. The fund will be established with a fee from clients who opt for this product and will be supplemented by a matching contribution from AMK. The organisation plans to test the product with an initial coverage of \$250 for client deaths, against an annual fee of \$2.50. The management indicates that client deaths over the last two years have been of the order of 0.1-0.2%, and it expects this fund to break even at approximately 1% claims.

### 3.2 Outreach and Clientele

The growth of AMK's outreach between end-December 2002 and end-June 2005 is depicted in **Figure 3.1** below. Outreach has grown from around 11,000 clients in January 2003 to nearly 29,000 clients at end-June 2005, a compound growth rate of 47%. Growth of outreach was substantial during 2003 and has accelerated again in 2005 with a period of consolidation in 2004 before the selection of new districts for expansion this year. A closer examination of the numbers indicates that the number of clients served has a clear pattern during the year with a peak during August to October and its trough in February after the annual harvest season in December-January.

**Figure 3.1**

#### Growth of AMK's Operations



The portfolio has expanded similarly from under \$600,000 in January 2003 to nearly \$2 million at end-June 2005 reflecting a compounded growth of 63%. The faster portfolio growth rate reflects an increase in loan size from \$54 outstanding per client in January 2003 to \$69 at end-June this year. A significant increase in average loan size (~17%) has occurred over the past 6 months mainly on account of older clients graduating to higher loan sizes after completing one or two loan cycles and also because of expansion through a new, higher value individual loan product introduced in 2004. The loan limits during this period have been increased too, by around 10-15% per year to account for inflationary movements and higher demand from clients.

As discussed above, AMK has a Training, Research and Marketing (TRAM) department that is in the process of establishing a methodology for obtaining regular information from clients on the organisation's client profile, its depth of outreach, and client responses to its services. During 2004, the department completed its first round survey and analysis of feedback from 114 new clients. Since then, the second set fieldwork has also been completed, with more than 500 clients covered in this round. The department is currently tabulating and analyzing

the data collected, and expects to report on a system to compare changes over time with quantifiable indicators later in the year.

Information obtained during the pilot first round suggests that AMK clients are amongst the very poor in Cambodia with average expenditures per capita per month less than half the national poverty line equivalent to US\$10 (and the median and mode of the sample being at even lower levels). Only a few clients reported expenditures in excess of the national poverty line – but still below the international US\$1 a day poverty line.

The survey indicates that though over 92% of AMK client households own cultivable land, low agricultural productivity means that non-farm activities like trading and manufacturing as well as livestock and salaried represent important sources of income for most families. Indeed, trading emerges as a larger source of income for the average client family than cultivation. The incomes of 27% of new client households either decreased or decreased greatly (10%) during the year. The research team has now set up a management tool to assess the poverty of clients and analysis of the second round data should yield this information.

### Annex 3.1

#### Summary of AMK's Loan Products

	EOT-VB LOAN	Installment-VB LOAN	Installment-I LOAN
<b>Loan Guarantee</b>	Social guarantee – No need physical collateral or guarantors	Social guarantee – No need physical collateral or guarantors	Physical collateral and 2 personal guarantors
<b>Loan denomination</b>	Riel and Thai Baht (in Banteay Mean Chey province)	Riel and Thai Baht (in Banteay Mean Chey province)	Riel and Thai Baht (in Banteay Mean Chey province)
<b>Loan Amounts</b>	<p><b>Maximum amount first loan</b> R200,000 or B2,000 (US\$50)</p> <p><b>Maximum increments in first two cycles:</b> R100,000 or B1,000 (US\$25).</p> <p><b>Maximum loan:</b> R500,000 or B5,000 (US\$125). Clients can apply for the maximum from their third loan (or 2 years)</p>	<p><b>Maximum amount first loan</b> R200,000 or B2,000 (US\$ 50)</p> <p><b>Maximum increments in first two cycles::</b> R100,000 or B1,000 (US\$25).</p> <p><b>Maximum loan:</b> R500,000 or B5,000 (US\$125). Clients can apply for the maximum from their third loan (or 2 years)</p>	<p><b>Maximum amount first loan</b> R1,000,000 or B10,000 (US\$250)</p> <p><b>Maximum increments:</b> R200,000 or B2,000 (US\$50).</p> <p><b>Maximum loan:</b> R2,000,000 or B20,000 (US\$500)</p>
<b>Maximum term</b>	12 months	12 months (but the term will be agreed with the client before disbursement)	18 months (but the term will be agreed with the client before disbursement)
<b>Repayment frequency</b>	3% monthly interest, end-of-term principal	Monthly fixed principal, declining 2.8% interest.	Monthly fixed principal, declining 3% interest. From the 4th loan (or 2 year): Monthly fixed principal, declining 2.5% interest.
<b>Prepayment penalties</b>	None	None	None for partial prepayment. None in the second part of term for complete prepayment. If complete prepayment occurs in the first part of the agreed term 3% penalty will be charged.
<b>Late payment fee</b>	1% per month from the first payment after the end of the term. Thus, in effect, the interest per month becomes 4% until the loan is completely paid back.	1% per month from the first payment after the end of the term. Thus, in effect, the interest per month becomes 3.8% until the loan is completely paid back.	12% per year or 1% per month of penalty fee on pending principal, starting from the month a payment has been missed.
<b>Other fees</b>	<b>Up-front fee:</b> 0.5% of loan amount.	<b>Up-front fee:</b> 0.5% of loan amount.	<b>Up-front fee:</b> 0.5% of loan amount
<b>Loan-linked compulsory savings</b>	None	None	Upfront 2% as savings deposit, refundable with annual simple interest of 12% on loan completion.

Source: AMK Institutional Overview, 2005.

## Annex 3.2

### AMK's General Savings Product

	<b>General Savings Account</b>
<b>Minimum transactions</b>	<b>Minimum denomination:</b> R100 and multiples <b>Minimum deposit to open account:</b> R500 (US\$0.125)
<b>Transactions venue</b>	Village (monthly meetings) and at the branch office (Monday to Friday, 8am-12 pm).
<b>Savings account passbook</b>	Records all deposit and withdrawal information and only the client can use it.
<b>Savings account interest</b>	18% annual interest on minimum monthly balances over R500. Interests accrued every 6 months.
<b>Fees</b>	None, except R200 if clients (more than 6 months old) choose to request a withdrawal delivered to her village in non-monthly meeting day. There are no fees for minimum or maximum transactions, but for those exceeding US\$200, clients must call the branch office 24 hours (1 working day) in advance.
<b>Dormant accounts</b>	An account will become dormant (cease to earn further interest) after 12 consecutive months of no transactions and will be liquidated after 24 consecutive months without activity.

Source: AMK Institutional Overview, 2005.

## Section 4

### Strategic Objectives

#### 4.1 Mission and Objectives

It is apparent from the review mission that AMK has set itself the implicit goal of becoming a best practice institution in the microfinance landscape of Cambodia. As a result it has a clearly established vision and mission as well as objectives that help to chart the course to realising those ends.

As set out by the Institutional Overview,

“The long-term vision of AMK is of a Cambodian society **‘where citizens have equal and sufficient economic and social opportunities to improve their standards of living, and where they can contribute productively towards the overall development of the country’**.”

“Thus, AMK’s mission statement has been defined as

‘to help large numbers of poor people in rural Cambodia to increase their livelihood options through the sustainable delivery of appropriate and viable microfinance services to the economically active poor’.

Based on the vision and mission set out above, AMK’s objectives (or “guiding principles”) have been set out as follows, to

- “...provide microfinance services to poor people in Cambodia that are grounded in sound financial discipline at all levels”
- “...be committed to openness and transparency in all areas of management and operations”
- “...be committed to developing processes/services and to adopting behaviors and standards that ensure client protection”
- “...be a learning organization where appropriate exchange and sharing of information will contribute to staff development, training and in policy & systems improvements.”

In this context, the following observations emerge from the review

- According to its business plan for July 2004 to December 2008, AMK has targeted to reach as many as 75,000 clients by the end of its planning period with an overall portfolio size of \$6.8 million. This compares with the 28,000 clients served at end-June 2005 with an outstanding portfolio of \$2 million. AMK’s recent efforts at expansion into the provinces of Battambang and Siem Reap appear to have been quite successful – as indicated by the substantial recent growth in client numbers and portfolio. In addition, AMK is actively seeking to identify new provinces for expansion based on criteria such as market size, coverage by financial institutions (including MFIs), poverty level and risk profile. Given this systematic approach and substantially under-served financial markets in Cambodia, reaching large numbers of clients appears to be well within its grasp.

- As discussed at the end of **Section 3**, first round survey information indicates that an overwhelming proportion of AMK clients are poor or very poor. The organisation has a full-fledged department (TRAM) with specific responsibility for obtaining information on client profile and customer feedback on the appropriateness of its services. In addition, it is in the process of establishing a Social Performance Committee consisting of independent specialists in the field of social performance with some experience of Asia. This reflects not only an appropriate concern for reaching poor people but also the willingness to commit resources to ensuring a feedback loop designed to ensure that those poor clients are provided with services that “increase their livelihood options”.
- As discussed in **Section 2**, AMK itself was established specifically for the purpose of ensuring “the sustainable delivery of appropriate and viable microfinance services”. Observation during the review indicates that the management’s approach is very focussed on ensuring the sustainability delivery of its services. The business plan projects operating profits for the latter half of Year 2005 and there is every indication from the financial performance of the organisation that this will, in fact, happen. AMK’s financial performance is discussed in the next section.
- The advent of AMK in Cambodian microfinance was marked by a redefinition of Concern’s focus on the poorest sections of the population towards the “economically active poor”. This was apparently based on the prevalent presumption that sustainable microfinance is not possible if there is an exclusive focus on the poorest and that people have to be “economically active” in order to benefit from and enable the practice of sustainable microfinance. In this formulation of the organisation’s mission, much depends on the definition of the term “economically active”; if it means ability to undertake self-employment, then it would follow that for microfinance to be sustainable clients must be lent money only for self-employment. We know that this is not a practical perspective on finance. The fungibility of money is well known and accepted while research has shown that significant proportions of microfinance loans go into consumption-smoothing rather than investment. Given that this is the case, the distinction between “economically active poor” and “the poorest sections of the population” may not be useful.<sup>4</sup> The AMK management feels that, in practical terms, this re-definition has not led to any change in the organisation’s focus on social objectives and the (so far limited) available evidence supports this.
- Focusing on the “guiding principles” set out above, the experience of the review shows that the management’s focus on financial discipline at all levels and its commitment to openness and transparency are unquestionable. Staff work in a comfortable but not lavish environment and the number of vehicles is limited to one per branch with appropriate controls to ensure economical use. As set out in **Section 2** the staff have an incentive system appropriately designed to ensure productivity. During the review, all staff discussed all aspects of AMK operations in an atmosphere of transparency and the management displayed considerable interest in discovering and correcting shortcomings in the organisation rather than in explaining or covering them up. In addition, the

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<sup>4</sup> Experience emerging from the work of the author’s organisations (M-CRIL and EDA) in the rating of microfinance institutions and their impact assessment indicates that the key factor determining the delivery of sustainable microfinance is the attitude of the management to sustainability and its simultaneous focus on impact rather than in the definition of its target group. See **M-CRIL Microfinance Review 2003** and Sinha, Frances and Amit Brar, “Poverty, Outreach & Sustainability of MFIs”, **Microbanking Bulletin** (forthcoming).

activities of TRAM appear to contribute significantly to ensuring that AMK functions as a learning organisation with a focus on staff training and systems improvement. Client protection is ensured through systems and measures that minimise the occurrence of fraud and the constant development of products that serve the needs of clients. The proposal, in recent weeks, to introduce a credit line for clients with a credit history with AMK and the proposal to introduce a client insurance product are small but significant additional steps in this direction.

## 4.2 Objectives for the Near to Medium term

The feasibility of achieving the outreach targets indicated in the business plan was indicated in **Section 4.1** (above). Some immediate business plan objectives for December 2005 and then for December 2008 are compared in the table with recent achievements on a few key indicators. It is apparent that, in June 2005, AMK was well placed to achieve all December 2005 targets. While the caseload projected for December looks high as an average, it is in fact a mix of relatively low caseloads in the newly developing branches of Battambang and Siem Reap. The projected caseload assumes these branches will reach reasonable levels of capacity utilisation by then. In the meantime, the results of the second round survey undertaken by TRAM should become available. Together with the newly established Social Performance Committee and AMK's Board, the feedback from the survey can be used by the management to focus further its services and operating systems to ensure improved impact on its clients.

**Table 4.1**

### **Business plan targets**

<b>Particulars</b>	<b>31 Dec 2004 actual</b>	<b>30 June 2005 actual</b>	<b>31 Dec 2005 projected</b>	<b>31 Dec 2008 projected</b>
Active loan clients	20,502	28,758	38,000	75,000
Field staff (COs)	46	52	59	110
Caseload (clients/CO)	446	553	644	682
Portfolio, million US\$	1.20	2.00	2.44	6.79
Portfolio quality, PAR30	0.7%	0.3%	3.7%	3.4%
Sustainability, OSS	93.0% <sup>5</sup>	86.5%	90.1%	122.1%

<sup>5</sup> For the year to December. OSS for the quarter is 109.4%.

## Section 5

### **Financial Performance**

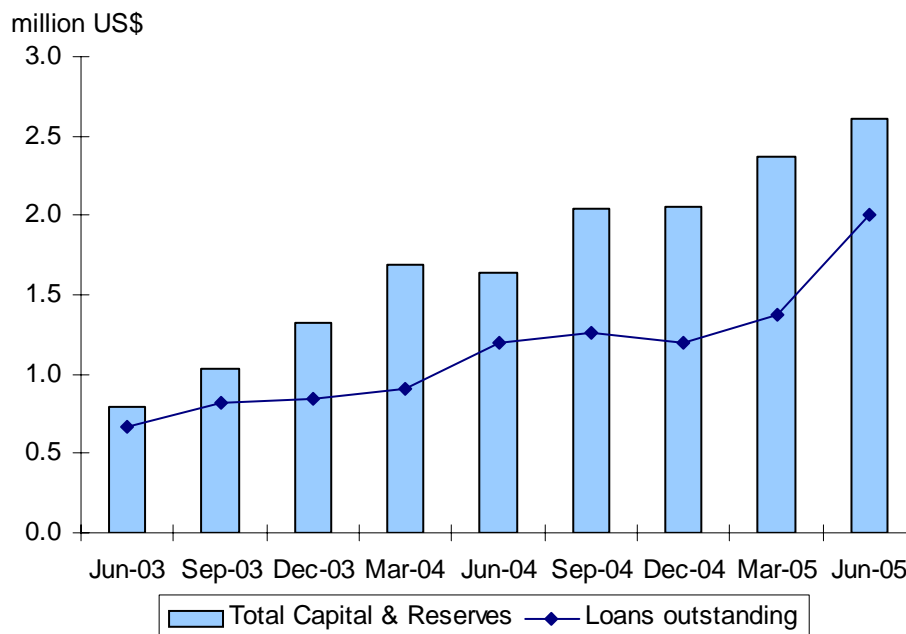
#### **5.1 Income Statement & Balance Sheet**

AMK prepares formal audited accounts on an annual basis but management accounts are produced quarterly. Since the establishment of AMK in July 2003, the accounts have been prepared in compliance with CGAP guidelines and present a very clear picture of the operations of the organisation.

A summary statement of the quarterly accounts is presented in **Annexes 5.1 & 5.2**. The trend in the gross portfolio and total capital available to the organisation is presented in **Figure 5.1**. Capital has now crossed \$2.6 million with the portfolio a shade below \$2.0 million at the end of June 2005. It is apparent from the figure that the portfolio grows to a substantial proportion of the capital (around 75-80%) around June every year when demand is high and drops to lower levels (<60% of capital) in March when demand is low on account of the prevalent agro-economic cycle in the rural areas of the country.

**Figure 5.1**

#### **AMK portfolio relative to capital available**



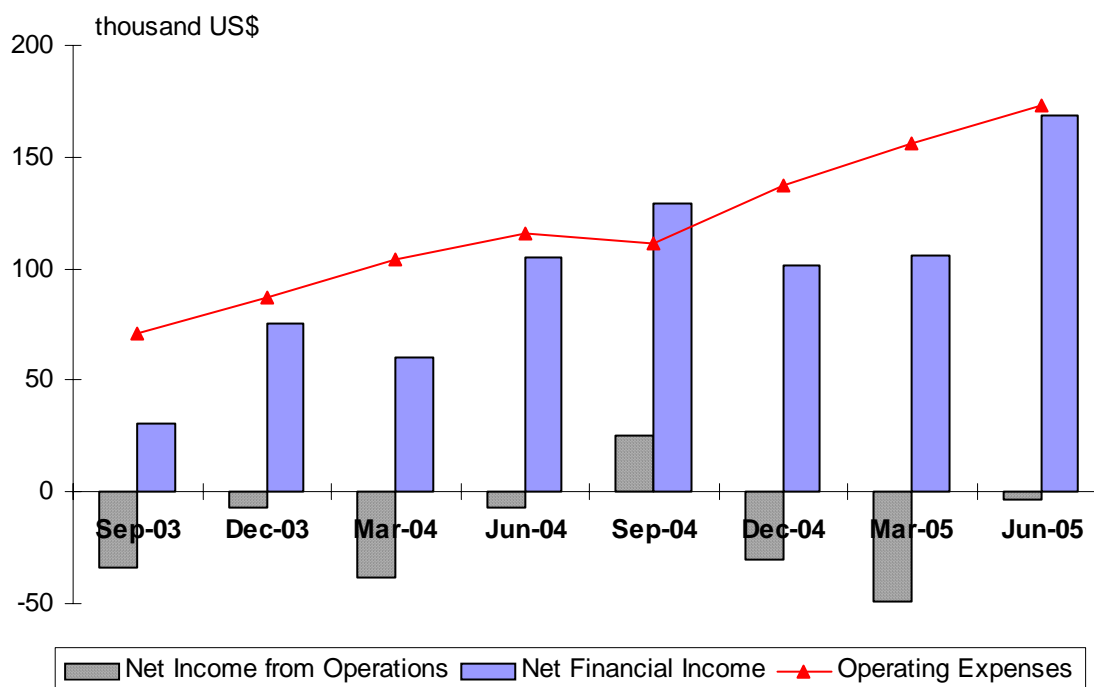
#### **5.2 Profitability and Adjustments**

The profitability performance of AMK is depicted in **Figure 5.2**. The organisation's accounts reflect significant operating losses though these were very low in the April-June quarter and are likely to register a surplus during the next quarter when the portfolio size is expected to be high and the expenses limited by the fact that this is both a low disbursement

and low collection period. The real test of the organisation's profitability performance will come in the last quarter of the year when AMK made an operating loss of around \$30,000 last year but expects to break even during 2005.

**Figure 5.2**

**Trends in profitability performance**



At present AMK does not regularly make adjustments for inflation and subsidies. However, at present, the direct subsidies to AMK amount only to the differential cost of the two expatriate staff – the CEO and TRAM Manager. Costs of \$18,000 for the CEO and \$9,000 for the TRAM Manager are nevertheless charged to AMK<sup>6</sup> and are realistic salaries that would be incurred by the organisation if appropriate Cambodian staff were available.

For inflation, in theory, the organisation could make an adjustment. Since its accounts are all presented in United States dollars, this would entail earning sufficient additional US\$ to compensate for US inflation. This was reported to be 1.9% during 2004.<sup>7</sup> Using CGAP's formula of *average equity minus average fixed assets* for the year this would result in an adjustment of \$30,745 for 2004. Since AMK has no borrowed funds at present, no adjustment for the subsidised cost of funds is required. As a result, compared to an OSS of 93% for 2004 the FSS amounts to 89.3%.<sup>8</sup>

<sup>6</sup> Note 23 to the Accounts in **AMK Annual Report 2004**.

<sup>7</sup> **The Economist**, 23 December 2004.

<sup>8</sup> All calculations based on **Annexes 5.1 & 5.2**. In the author's opinion a different formula for the inflation adjustment should be used: Average cash + net current assets gives a more accurate picture of the value of assets exposed to inflation. Using this definition the FSS for 2004 increases to over 91%.

### 5.3 Efficiency

Trends in the key efficiency ratios of Credit Officer Caseload and Portfolio per Credit Officer are presented in **Table 5.1**. Over the past two years, the caseload has varied between 500 and 700 clients though with new hires for the expansion into new provinces it declined to much lower levels at the end of 2004. With a fast expanding portfolio in the new branches this seems likely to recover to over 600 during the next quarter with the projected caseload of 644 quite achievable by the end of the year. AMK's caseload compares with an average of 251 (for Asia in 2002) reported by the Microbanking Bulletin. The latter sample, of course, includes significant numbers of Grameen type organisations with weekly collection mechanisms as does the M-CRIL Top10 average of 193 clients per staff member (or around 300 clients per loan officer).<sup>9</sup>

The trend in the portfolio per credit officer shows a similar pattern and is expected easily to reach the targeted figure of around \$41,000 by the end of the year and, with growth in loan sizes over time, \$62,000 by 2008. The loan size of over \$90 per loan account outstanding, projected for end 2008, is expected to result from a continuing trend of larger loan sizes for clients with an increasing credit history with AMK, increases in loan limits for various cycles of borrowers and inflationary pressures. This seems a reasonable trend given the performance of other MFIs in Cambodia but AMK would, nevertheless, do well to guard against mission drift.<sup>10</sup> The work of TRAM and the advice and support of the Social Performance Committee could be instrumental in this process.

**Table 5.1**  
**Efficiency ratios**

	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Clients – borrowers	16,061	18,423	16,378	20,894	22,906	20,502	19,185	28,758
Total staff	62	68	73	78	87	91	100	103
Credit officers – number	21	30	31	30	39	46	52	52
Credit officer caseload	765	614	528	696	587	446	369	553
Portfolio per credit officer, \$	39,125	28,111	29,386	39,749	32,234	26,133	26,448	38,425
Operating expense ratio	38.3%	41.8%	47.6%	44.0%	42.2%	44.8%	49.5%	41.0%
Staff costs/operating costs	57%	54%	54%	57%	57%	53%	57%	55%

AMK's operating expense ratio in the range 40-50% is likely to reduce to around 33% by the end of 2005 and is projected to come down to 20% by end-2008. At the latter level it will be more comparable with the 20.1% emerging from the M-CRIL sample and the 16.9% reported for Asian MFIs by the Microbanking Bulletin than it is at present. Since AMK seems set to achieve the productivity ratios indicated above, it is likely that the operating expense ratio will also decline to this very reasonable level. Staff costs are at 53%-57% of total costs and are likely to stay at this proportion which compares reasonably with the 50-60% staff cost reported by most MFIs in the region.

<sup>9</sup> **The MicroBanking Bulletin**, Issue no.10, March 2005 and **M-CRIL Microfinance Review 2003**. Weekly collection systems inevitably require lower caseloads due to the increased burden on Credit Officers compared to the monthly interest collection system employed by AMK.

<sup>10</sup> M-CRIL's work in Cambodia shows that AMK's loan size is currently one of the lowest amongst Cambodian MFIs. The only others with comparable loan sizes are AMRET with around \$70 per loan outstanding and PRASAC with \$116 (though the average for the group loan product is just \$59).

## 5.4 Loan Portfolio Analysis

As **Table 5.2** shows, there has been a constant improvement in portfolio quality since the establishment of AMK. The AMK Annual Report for 2004 shows sub-standard (>30 days overdue) and doubtful (>60 days overdue) loans of \$8,566 amounting to 0.7% of the portfolio. By end-June 2005 this amount had reduced to \$6,746 amounting to 0.3% of the portfolio. Virtually all of this amount (\$6,574) is pending in Banteay Meanchey province where AMK has historically faced problems – though it is apparent from the trend information that this amount is gradually being recovered and reduced.

**Table 5.2**

### Loan portfolio quality

	Jun 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Repayment rate	93.7%	96.9%	98.1%	98.6%	98.7%	99.5%	97.1%	99.7%
Portfolio at risk	2.5%	2.5%	2.7%	1.6%	1.6%	0.7%	0.5%	0.3%

As discussed earlier, AMK has been operating mainly in Banteay Meanchey, Kampong Speu and Pursat provinces. In recent months Battambang and Siem Reap provinces have been added to the operational area through sub-offices established in there (managed respectively by the Pursat and Banteay Meanchey branches). Historically, Banteay Meanchey has been the most important of the provinces and, as is apparent from **Table 5.3**, it continues to account for over 40% of the portfolio. There is, of course, significant covariant risk entailed in this geographical concentration and this partly explains the high (over 97%) proportion of the portfolio at risk being concentrated in Banteay Meanchey.<sup>11</sup> The organisation's expansion strategy into the neighbouring provinces of Battambang and Siem Reap is, of course, addressing this issue to some extent and its plans to expand into other parts of Cambodia will spread the risk further.

**Table 5.3**

### Geographical distribution of portfolio, end-June 2005

<u>Portfolio</u>	<i>US dollars</i>						
	Head office	Kampong Speu	Pursat	Battambang	Banteay Meanchey	Siem Reap	Total 30 June 05
End of Term – VB	-0	480,290	428,914	63,974	780,707	89,506	1,843,391
Installment – VB	0	3,901	0	109	4,893	0	8,903
Installment – individual	0	51,622	27,776	4,078	31,505	8,274	123,254
Staff loan	22,547	0	0	0	0	0	22,547
<b>Gross loan portfolio</b>	<b>22,547</b>	<b>535,812</b>	<b>456,690</b>	<b>68,161</b>	<b>817,105</b>	<b>97,779</b>	<b>1,998,095</b>
less loan loss reserve	0	-6,198	-4,567	-682	-14,562	-1,093	-27,101
<b>Net loans outstanding</b>	<b>22,547</b>	<b>529,614</b>	<b>452,123</b>	<b>67,480</b>	<b>802,544</b>	<b>96,687</b>	<b>1,970,994</b>
Proportion of total	1.1%	26.8%	22.9%	3.4%	40.9%	4.9%	100.0%

<sup>11</sup> It is also important to note that AMK has written off a relatively small proportion of the pre-AMK (2002) portfolio in the Banteay Meanchey branch – compared to the other two branches – so this is not necessarily an indicator of recent problems in that area.

Information on loan diversification in terms of utilisation for various purposes is collected in the AMK's loan application forms but is not presently being compiled or used by the management. Partly, as a result, it is not even being entered into the MIS in any useful or consistent way. The MIS lacks appropriate fields for capturing information usefully (for instance all livestock are lumped together with no distinction between small and large animals) and, in any case, is entered into the MIS simply as agriculture by some of the tellers. While the fungibility of money means loan utilisation data is not always accurate, it does provide some indication of the demand for financing of different types of activities and could, at some point, provide a useful input for product design. The reviewer's impromptu (and very brief) survey with a few groups in Pursat and Banteay Meanchey provinces as well as discussion with the staff of Kampong Speu indicates the importance of the following activities in the AMK portfolio (roughly in order of importance)

- Pig rearing
- Rice cultivation
- Vegetable cultivation
- Trading vegetables/groceries
- Running food stalls – pancakes, noodles
- Bicycles, carts for transporting goods for trading

The impression that emerges is that of the typical small livestock rearing plus petty trading profile that is commonly observed with MFI portfolios throughout Asia and works well everywhere from Bangladesh to the Philippines.

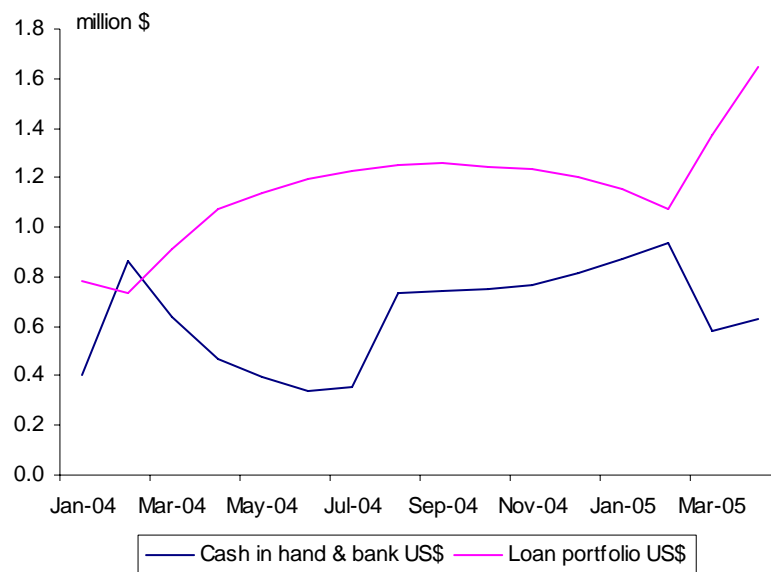
## **5.5 Liquidity Management**

Information on AMK's liquidity is summarised in **Figure 5.3** and **Table 5.4** which follow. AMK's average liquidity over the past 18 months has been around 30% of the capital available at any given point in time. In a sense this is a "problem of plenty". The management's initial concern was to ensure the introduction of good systems and procedures to improve and then ensure the quality of the portfolio. Later, Concern Worldwide had to put in more capital (during 2004) in order to meet the minimum capital requirements of the National Bank of Cambodia in order to enable the organisation to be registered as a licensed MFI. The present arrangement with Concern Worldwide is that AMK maintains liquid funds of at least 15% of the total loan portfolio plus the mandatory deposit with the NBC. When the cash level falls below this, AMK requests Concern for additional funds.

It is interesting to note that when the portfolio of AMK is at its peak level between June and September each year, the organisation's liquidity falls to around 20% - though in September 2004 it actually increased on account of a large share capital inflow (around \$400,000) in August. The planned expansion of the next few months – when the portfolio is due to expand by another \$400,000 by December 2005 – will bring overall liquidity down below the reasonable level of 10% required by the average MFI to manage operations effectively. At this point, borrowing will become essential to enable further portfolio growth though the seasonality of AMK's operations means that the additional funds will not actually be required until about April 2006. At this point the \$200,000 loan sanctioned by the Microfinance Alliance Fund (MAF) will need to be drawn down and will, indeed, rapidly become insufficient since AMK's 2006 portfolio target is as high as \$4.4 million.

**Figure 5.3**

**Liquidity Management**



**Table 5.4**

**Liquid Funds held by AMK**

<b>Month-year</b>	<b>Cash &amp; bank deposits as % of total capital</b>
June 2003	3.5
September 2003	8.3
December 2003	25.9
March 2004	37.7
June 2004	20.7
September 2004	36.4
December 2004	39.6
March 2005	24.6
June 2005	20.7

**5.6 Liabilities and Cost of Funds Analysis**

AMK's Quarterly Management Accounts for June 2005 indicate total client savings of \$6,985 of which loan-linked savings amounted to \$4,051. At end-December 2004, the organisation offered only a loan-linked deposit and had collected \$3,498. It pays 12% per annum on loan-linked savings and 18% per annum on general (voluntary) savings balances in excess of R500 (or roughly 1/8 of a dollar). Since these deposits presently represent only 0.3% of total capital this liability imposes a negligible cost burden at present. The historical problem with deposits in Cambodia was discussed in **Section 3** and it is difficult, in the near future, to see client savings growing to the level of a significant liability for AMK and certainly not to the \$31,600 level projected for December 2005. While it is the case that ACLEDA has generated significant deposits (particularly institutional deposits) since become

a banking company, achieving this status is a distant goal for AMK. In order to increase its deposits it is likely that AMK would need to increase not only the interest rate offered (from the present 18%) but also the physical efforts made by its staff to generate those deposits. In this situation the overall cost of collecting and servicing deposits could climb to 25%-30% which would not be worthwhile for the organisation from a financial perspective since alternative funds (such as the loan sanctioned by MAF) are available at a cost of the order of 11-12%.<sup>12</sup> For the cost of savings to decline, there would need to be a substantial change in the public perception of fiduciary responsibility vis-à-vis Cambodian financial institutions – a very long term process. Since it is, perhaps, desirable for AMK to experiment with the deposit facility for social reasons (in the short term) a specific subsidy from Concern for servicing (or at least promoting the product) would be sensible.

It is worth noting, indeed, that client deposits as a liability are presently dwarfed by a provision of the order of \$50,000 for staff retirement benefits.

## 5.7 Interest Rate and Solvency Analysis

Given its 3% (declining balance) interest charge and 0.5% up-front fee for its two main loan products – the EoT-VB and Instalment Individual loan, the average APR (Annual Percentage Rate) charged by AMK on its portfolio amounts to 36.2%. This is calculated in **Table 5.5** using the June 2005 portfolio on a sample basis.

**Table 5.5**

### **Calculation of Annual Percentage Rate charged by AMK**

Loan Product	Portfolio in June 2005		APR
	US\$	% of total	
EoT VB	1,843,391	92.3%	36.5%
Instalment VB	8,903	0.4%	34.1%
Instalment Indl	123,254	6.2%	37.0%
Staff Loan	22,547	1.1%	12.0%
	<b>1,998,095</b>	<b>100.0%</b>	<b>36.2%</b>

**Table 5.6** presents the actual yield earned by AMK for each quarter since its inception along with other key ratios that help to determine whether its interest rate is adequate. It is apparent from the table that the yield from AMK's portfolio at present does not cover its operating expenses let alone any cost of funds that may be incurred in future. However, the organisation has projected a declining OER which can be expected to improve with better caseloads in particular.

In the table, the September 2004 yield is high on account of a switch from the cash basis for income accounting to an accrual basis as mandated by the National Bank of Cambodia for all licensed MFIs. This resulted in recognition for notionally accrued income on non-performing loans as well as on temporary delinquencies. The yield in the March quarter of each year is lower because substantial pre-payments take place during the post-harvest months of January and February while the portfolio starts to increase again in March (**Figure 5.3**). This results in a higher average portfolio for the quarter relative to the interest earning.

<sup>12</sup> Oikocredit funding at around 13% represents another option.

**Table 5.6****Interest Rate Analysis**

	Sep 03	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Yield on performing assets	34.2%	38.2%	33.4%	36.5%	43.0%	38.0%	33.8%	37.2%
Operating expense ratio	38.3%	41.8%	47.6%	44.0%	42.2%	44.8%	49.5%	41.0%
Operating self-sufficiency	84.2%	78.4%	84.3%	75.8%	107.8%	109.4%	69.1%	86.5%
Return on assets, quarter	-3.8%	-0.7%	-2.6%	-0.5%	1.3%	-1.5%	-2.3%	-0.2%
Return on assets, annualised				-6.9%	-2.0%	-3.1% <sup>13</sup>	-3.3%	-2.9%

The question of whether the interest rate is appropriate also needs to be addressed in the context of the competition that is now emerging in the Cambodian microfinance market. In this context, it is useful to note that AMK's charges to its clients compare very favourably with those of its two major (large) competitors, AMRET that has an APR of 42% and PRASAC with an APR of 40%.

AMK has, of course, been losing money since its formation but the total loss so far amounts to under \$150,000, just 5.4% of the total capital inflow from Concern. A seasonal increase in performance is expected in the latter half of the year leading, perhaps over the year, to a break-even or marginal loss making position. During 2006, the AMK management is confident of earning a profit and wiping out a significant proportion of the losses incurred so far.

<sup>13</sup> This calculation differs from that of the AMK management as it excludes foreign exchange gains which are assumed to be "extra-ordinary" and, therefore, non-operational income. Including foreign exchange gains results in a positive RoA of 2.7% for the December quarter and an RoA of -2.0% for Year 2004 taken as a whole.

**Annex 5.1**

**Quarterly Balance Sheets of AMK**

<b>As at end</b>	<b>Sep 03</b>	<b>Dec 03</b>	<b>Mar 04</b>	<b>Jun 04</b>	<b>Sep 04</b>	<b>Dec 04</b>	<b>Mar 05</b>	<b>Jun 05</b>
<b>Fixed Assets</b>	<b>107,103</b>	<b>123,569</b>	<b>145,651</b>	<b>137,222</b>	<b>129,142</b>	<b>133,728</b>	<b>134,881</b>	<b>133,684</b>
<b>Current Assets</b>								
<b>Cash &amp; Bank</b>	<b>86,009</b>	<b>341,823</b>	<b>638,455</b>	<b>338,462</b>	<b>744,482</b>	<b>815,192</b>	<b>581,590</b>	<b>541,364</b>
<u>Portfolio</u>								
Loans Outstanding	821,625	843,330	910,966	1,192,456	1,257,132	1,202,122	1,375,285	1,998,095
less loan loss reserve	-32,435	-33,188	-43,561	-30,795	-31,522	-36,241	-40,215	-27,101
<b>Net loans outstanding</b>	<b>789,190</b>	<b>810,142</b>	<b>867,405</b>	<b>1,161,661</b>	<b>1,225,610</b>	<b>1,165,881</b>	<b>1,335,070</b>	<b>1,970,994</b>
Other Current Assets	65,470	63,422	66,031	63,452	6,374	25,270	353,733	19,449
Interest Arrears(net)	2,769	2,978	104	29	18,833	19,556	20,103	29,969
	68,239	66,400	66,135	63,481	25,207	44,826	373,836	49,418
<b>Current Liabilities</b>								
Current Saving							-101	-83
Loan linked Saving						-2,423	-3,520	-4,051
General Saving						-1,075	-1,772	-2,851
Other current liabilities and accrued	-22,515	-46,676	-49,558	-63,616	-78,385	-95,569	-51,018	-77,644
<b>Net Current Assets</b>	<b>920,923</b>	<b>1,171,689</b>	<b>1,522,437</b>	<b>1,499,988</b>	<b>1,916,914</b>	<b>1,926,832</b>	<b>2,234,085</b>	<b>2,477,147</b>
<b>TOTAL ASSETS</b>	<b>1,028,026</b>	<b>1,295,258</b>	<b>1,668,088</b>	<b>1,637,210</b>	<b>2,046,056</b>	<b>2,060,560</b>	<b>2,368,966</b>	<b>2,610,831</b>
<b>Capital &amp; Reserves</b>								
Share Capital/Concern funding	1,053,445	1,356,716	1,756,686	1,756,685	2,156,685	2,156,685	2,515,223	2,769,325
Retained profit/(loss) for the period		-25,419	-61,458	-88,598	-119,475	-110,631	-96,126	-96,125
Profit/(loss) for the period	-25,419	-36,039	-27,140	-30,877	8,844	14,506	-50,131	-62,369
<b>TOTAL CAPITAL &amp; RESERVES</b>	<b>1,028,026</b>	<b>1,295,258</b>	<b>1,668,088</b>	<b>1,637,210</b>	<b>2,046,056</b>	<b>2,060,560</b>	<b>2,368,966</b>	<b>2,610,831</b>

**Annex 5.2**

**Quarterly Profit & Loss Accounts of AMK**

<b>for the three months ending</b>	<b>Sep 03</b>	<b>Dec 03</b>	<b>Mar 04</b>	<b>Jun 04</b>	<b>Sep 04</b>	<b>Dec 04</b>	<b>Mar 05</b>	<b>Jun 05</b>
<b>Financial Income</b>								
Interest on loans	62,128	75,811	66,936	90,413	127,193	112,240	101,033	149,620
Fee Income	118	649	3,047	2,107	1,004	1,437	4,572	4,187
Bank Interest Income	13	0		1,023	1,814	4,162	4,361	3,317
Provision for loan losses	-31,698	-1,196	-9,380	11,896	-1,050	-16,608	-4,108	11,847
<b>Net Financial Income</b>	<b>30,561</b>	<b>75,264</b>	<b>60,603</b>	<b>105,439</b>	<b>128,961</b>	<b>101,231</b>	<b>105,858</b>	<b>168,970</b>
<b>Financial Costs</b>								
Interest and fees on borrowings								
Interest on loan linked savings				14	33	57	83	101
Interest on general savings					1	7	57	74
<b>Total Financial Costs</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>34</b>	<b>64</b>	<b>140</b>	<b>174</b>
<b>Net Financial Margin</b>	<b>30,561</b>	<b>75,264</b>	<b>60,603</b>	<b>105,425</b>	<b>128,927</b>	<b>101,167</b>	<b>105,718</b>	<b>168,796</b>
<b>Other Income</b>	7,074	4,359	5,519	3,150	7,518	6,382	1,996	541
<b>Operating Expenses</b>								
Staff Costs	40,758	47,038	56,758	65,405	63,029	73,514	89,327	94,290
Transport	5,998	5,167	9,141	6,587	6,060	6,827	8,782	10,792
Administration	18,639	34,172	34,513	32,519	30,406	45,157	44,075	55,599
Technical Support	9,000	9,000	6,750	6,750	6,750	6,750	6,750	6,750
Other	5,882	8,403	6,417	4,374	4,615	5,381	7,467	5,297
<b>Total Operating Costs</b>	<b>80,277</b>	<b>103,780</b>	<b>104,403</b>	<b>115,635</b>	<b>110,860</b>	<b>137,629</b>	<b>156,401</b>	<b>172,728</b>
<b>Net Income from Operations</b>	-42,642	-24,157	-47,457	-7,060	25,585	-30,080	-48,687	-3,392
Expatriate Costs								
<b>Profit/(loss) before taxation and foreign exchange</b>	<b>-42,642</b>	<b>-24,157</b>	<b>-47,457</b>	<b>-7,060</b>	<b>25,585</b>	<b>-30,080</b>	<b>-48,687</b>	<b>-3,392</b>
Taxation	-658	-786	-788	-899	-1,375	-1,242	-1,186	-1,453
<b>Profit/(loss) before fx</b>	<b>-43,300</b>	<b>-24,943</b>	<b>-48,245</b>	<b>-7,959</b>	<b>24,210</b>	<b>-31,322</b>	<b>-49,873</b>	<b>-4,845</b>
Exchange gain/(loss)	17,881	-11,096	21,105	-22,918	-15,366	45,827	-259	-7,393
<b>Profit/(loss) for the period</b>	<b>-25,419</b>	<b>-36,039</b>	<b>-27,140</b>	<b>-30,877</b>	<b>8,844</b>	<b>14,505</b>	<b>-50,132</b>	<b>-12,238</b>

## Annex 1

### Detailed Implementation Plan

For the purpose of its agreement with USAID for the Matching Grant programme, Concern Worldwide developed a Detailed Implementation Plan (DIP) in 2001. The DIP was developed by a group led by Microfinance Advisor, Isabelle Kidney and supported, amongst others, by the Operations Manager and the Finance Manager at AMK's predecessor operation, TPT. Though the plan covers Concern Worldwide's microfinance programmes in Cambodia and Haiti as well as Concern Worldwide's US office, the discussion in this annex is limited to the Cambodia programme.

Given that the current management of AMK (as TPT was re-invented) was not involved in the development of the DIP, with the passage of time they feel that much has changed since the DIP was developed and, therefore, the relevance of a comparison of current achievements with the contents and targets of the plan is questionable. Nevertheless, it is apparent from a reading of the DIP that it formed the basis for many of the actions undertaken by Concern Worldwide for the restructuring and professionalisation of its microfinance programme in Cambodia. The DIP spoke of

- supporting TPT in its transformation into an independent MFI
- operated primarily by nationals
- guided by a clear strategic plan, and
- offering financial services to 24,000 people in 3 provinces
- 70% of whom would be from the relatively poor and poorest wealth categories with
- 75% of them being women.

The strategy envisaged capacity building of the MFI through intensive technical support for institutional and staff development, improvements to existing structures and systems, and the piloting of new products and delivery mechanisms for targeting the rural poor. The DIP went on to identify specific tasks to be undertaken as well as indicators of achievement under the programme. The indicators developed and achievements under the programme relevant to Concern Cambodia's microfinance programme against each of these indicators are summarized in the table below.

DIP Indicator	Achievements by Concern/AMK
Concern Cambodia retains core staff of technical advisors able to support continued development of TPT	The management of Concern Cambodia was maintained but responsibility for TPT was gradually re-assigned as the existing managers were replaced by those with a higher level of professional skills
TPT staff have developed a 3 year strategic plan implemented over the period December 2002 and November 2005	The strategic plan was developed after the establishment of AMK and was only completed in late 2003 for the period July 2004 to end-2008. However, the plan is thoughtfully developed and is largely realistic in its approach and target setting.
Increased staff capacities illustrated by there being at least 2 out of 3 branch	Staff capacities have been increased well beyond the targets of the business plan. Thus, not only are all 3 branch managers Cambodians, local nationals are now responsible

DIP Indicator	Achievements by Concern/AMK
managers who are Cambodian nationals and a Cambodian national Deputy Operations Manager is in training to take over as Operations Manager	for all major functional areas except TRAM (training, research and marketing). The TRAM manager and CEO are now the only foreigners responsible for AMK operations.
TPT MIS system is fully developed by June 2003, is managed by the national financial controller by January 2004	The MIS system has taken longer to develop fully than originally envisaged. However, this is a common experience in microfinance across Asia. The present MIS is well developed nevertheless and a little additional effort should see the establishment of a fully developed system.
As a more fully independent institution, the accounting and administrative system will operate separately from Concern Cambodia's by June 2003	This was achieved by establishing a new microfinance entity – AMK – and providing it with the quality of leadership, resources and functional independence to enable the establishment of fully independent management systems from July 2003
TPT has own office by June 2003	AMK was registered in May 2003 and its new, independent office was functioning by July 2003.

Thus,

- By end-June 2005 – cut-off date for this evaluation – AMK looked very much like an **independent MFI** though its financial independence will not, of course, be established until at least operational (and preferably financial) self-sufficiency is achieved.
- It is clear from the table above and the evaluation field visit that AMK is **operated primarily by nationals of Cambodia**.
- AMK has a **clear** and realistic **strategic plan** with largely achievable goals.
- By end-September 2004, the **number of clients served** was just under 23,000 but by June 2005 this number had crossed 28,000. By the end of the year, AMK expects to achieve its target of 38,000 clients.
- Indications are that more than 95% of AMK's **clients belong to the relatively poor and poorest categories**. It is the analysis of the information collected by AMK's TRAM department in its second round survey that will provide definitive information on this.
- It is a matter of record that around 85% of AMK's **clients are women**.

It is apparent from this discussion that AMK has made substantial and laudable progress towards the goals and indicators set up in the Detailed Implementation Plan. While much may have changed since the plan was formulated – as it inevitably does – it is also apparent from discussion that, consciously or unconsciously, the existence of the DIP document and its indicators provided a focus for the management's consideration of actions required to turn AMK's "commercialization with social objectives" aim into reality. Concern Worldwide's technical, financial and moral support as well as its vision in establishing an independent, professionally run MFI was instrumental in enabling this and the efforts and professionalism of the management of AMK in achieving this goal need to be fully recognized. There is every indication that the sustenance of this effort will result in AMK's select set of appropriate financial services reaching large numbers of the poorest families in Cambodia.